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AGRICULTURAL TRADE

Changes Made to Market Access Program, but Questions Remain on Economic Impact

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The Honorable Charles Schumer
United States Senate

The Honorable Steve Chabot
The Honorable Eddie Bernice Johnson
The Honorable Ron Kind
The Honorable Marty Meehan
The Honorable Rob Portman
The Honorable Edward Royce
House of Representatives

This report responds to your request that we examine the U.S. Department of Agriculture's (USDA) implementation of legislative reforms to the Market Access Program (MAP) and their impact on program participation. Since 1986, MAP has provided funds to nonprofit organizations and commercial firms to help support their promotions of U.S. agricultural products in overseas markets.[1] The Foreign Agricultural Service (FAS), an agency of USDA, administers this program and estimates that there are substantial economic benefits associated with MAP. Over the years, some Members of Congress have questioned MAP's long-term economic returns to the taxpayer and expressed concerns about program operations—specifically that large corporations were using MAP to support their brand-name promotions and that there were no requirements for companies to graduate from the program. In addition, there was concern that these federal dollars were displacing private sector expenditures already planned for market development activities.[2]

In response to these concerns, Congress enacted legislative reforms beginning in fiscal year 1993 that, among other things, directed FAS to (1) give small businesses priority when funding MAP promotion of brand-name products in foreign markets and, with certain exceptions, prohibit direct assistance to large companies; (2) establish a graduation requirement by limiting to 5 years the amount of time MAP funds can be used to promote brand-name products in a single market; and (3) require each recipient to certify that any federal funds received supplement, not

[1]MAP has had two predecessors. In 1996, MAP replaced the Market Promotion Program, which was established in 1990 to replace the Targeted Export Assistance program authorized in 1985.

[2]See International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993) and International Trade: Effectiveness of Market Promotion Program Remains Unclear (GAO/GGD-93-103, June 4, 1993).

supplant, its expenditures for promotions in foreign markets.[3] As requested, this report provides information on and analysis of FAS' implementation of each of these requirements. It also responds to your request that we review assessments of the economic benefits of MAP.

Results in Brief

As directed by Congress, the Foreign Agricultural Service implemented operational changes to the Market Access Program; these changes have affected program participation and distribution of funds. Since fiscal year 1994, FAS has increased the number of small businesses participating in MAP to promote brand-name products as well as small businesses' share of program funds. As required by statute, FAS prohibited direct assistance for brand-name promotions to large companies beginning in fiscal year 1996. This prohibition does not apply to cooperatives and certain associations. Also, beginning in fiscal year 1998, FAS prohibited indirect assistance to large companies (excluding cooperatives and certain associations).

Furthermore, FAS implemented a graduation requirement that will affect about a quarter of the small businesses with brand-name promotions totaling $4.3 million in fiscal year 1999, as well as the number of MAP brand-name promotions conducted in individual country markets. This graduation requirement also could have affected about half of the cooperatives; however, in December 1998, FAS chose to use its statutory authority and waive the graduation requirement for all cooperatives, citing special considerations.

Since fiscal year 1995, FAS has required all participants to self-certify that MAP funds supplement, not supplant, their activities to develop new foreign markets for their products. While FAS regularly verifies that the participants and the companies they fund have completed their certification statements, FAS' Director of Compliance Review Staff reports that it is difficult to assure that these funds are additional because it is hard to determine what would have been spent in the absence of MAP funds. Also, this requirement has had no apparent impact on program participation.

Questions remain about the overall economic benefits derived from MAP funding. FAS estimates of MAP's macroeconomic impact are overstated because they rely on a methodology that assumes that the resources used

[3]The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, sec. 1302, Aug. 10, 1993) and the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, sec. 244, Apr. 4, 1996).

were not employed prior to the funding. We note that this is inconsistent with Office of Management and Budget (OMB) cost/benefit guidelines. In addition, the evidence from market-level studies is inconclusive regarding MAP's impact on specific commodities in specific markets.

Background

In fiscal year 1997, Congress allocated $90 million for MAP to support the overseas promotion of agricultural goods such as grains, cotton, forest products, fruits, nuts, seafood, meat, alcoholic beverages, and processed goods.[4] (See fig. I.1 in app. I for MAP appropriations since fiscal year 1986.) During fiscal year 1997, FAS provided MAP funds directly to 65 participating organizations consisting of 54 nonprofit agricultural trade associations, 5 nonprofit state regional groups,[5] 2 state agencies, and 4 agricultural cooperatives.[6] (See app. I, table I.1, for a list of fiscal year 1997 MAP participating organizations and their budgets).

MAP funds can be used to support both generic promotions and brand-name promotions. In fiscal year 1997, about 76 percent of MAP's budget supported generic promotions, with the remaining funds supporting brand-name promotions. Generic promotions are undertaken by nonprofit trade associations, state regional groups, and state agencies to increase demand for a specific commodity with no emphasis on a particular brand, for example, U.S. peas and lentils, catfish, and cotton. Brand-name promotions, on the other hand, are conducted by companies and cooperatives to establish consumer loyalty for their brand-name products. Trade associations and others using MAP funds to support generic promotions must contribute at least 10 percent of the promotion cost; entities using MAP funds to support brand-name promotions must make a minimum 50 percent contribution.

In order to receive MAP funds, participating organizations must submit, and FAS must approve, marketing plans specifically describing the manner in which MAP assistance will be expended. Under these plans, the MAP funds may be spent by participating organizations themselves (direct) and/or redistributed to entities that have applied to participating organizations for

[4] At the time of our review, the most current year with complete MAP data with company detail available was fiscal year 1997. A fiscal year represents the year for which the MAP funds were authorized and allocated; however, these funds may have been expended the following fiscal year depending on the recipient's marketing year.

[5] State regional groups are associations of state Departments of Agriculture.

[6] These agricultural cooperatives are agricultural producer companies that market and sell the production of individual growers.

MAP assistance (indirect). In fiscal year 1997, there were 453 individual companies and 20 cooperatives that indirectly received assistance for brand-name promotions. These companies and cooperatives applied for MAP funds through 19 participating organizations.

Eligible MAP expenses include production and distribution of advertising and promotional materials (for example, posters, recipes, and brochures); in-store and food service promotions; product demonstrations; and fees for participation in exhibits. Funds used to support generic promotions may only be spent on the generic aspects of a campaign rather than on any promotional material or advertising that specifies a single company or brand.[7]

MAP supported generic and brand-name promotions in 100 countries during fiscal year 1997; 10 country markets accounted for 65 percent of the funds (see app. I, fig. I.2, for top country markets). With regard to the MAP brand-name program, a total of 475 companies and cooperatives received assistance in fiscal year 1997. The amount of MAP funds awarded to each ranged from $1,500 to $2.6 million; however, almost half of the awards were in amounts less than $25,000 (see app. I, table I.2, for size of fiscal year 1997 MAP awards).

FAS' Strategic Plan 1997-2002 contains estimates of the economic impact of FAS foreign market promotion programs, including MAP. This plan fulfills the requirement established under the Government Performance and Results Act of 1993 (Results Act) (P.L. 103-62) whereby federal agencies must prepare strategic and annual performance plans covering the program activities set out in the agencies' budgets. For purposes of conducting cost/benefit analyses of government programs, OMB has established guidelines.[8]

MAP Brand-name Promotions Target Small Businesses

Since fiscal year 1994, FAS has significantly increased the number of small businesses participating in MAP's brand-name program as well as their share of MAP funds. In fiscal year 1996, as required by statute, FAS discontinued providing direct assistance to large businesses other than cooperatives and certain associations, which by law are eligible to receive

[7]Any activity that involves two or more companies is considered a generic promotion as long as MAP funds are not used on items that identify the company, and all other companies had equal opportunity to participate in the promotion.

[8]See "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," OMB Circular A-94 (Washington, D.C.: Oct. 29, 1992).

this assistance for brand-name promotions regardless of size.[9] In fiscal year 1998, FAS eliminated MAP funding for brand-name promotions by large companies entirely, by prohibiting their indirect participation in the brand-name program.

Small Business Share of MAP Brand-name Assistance Has Increased

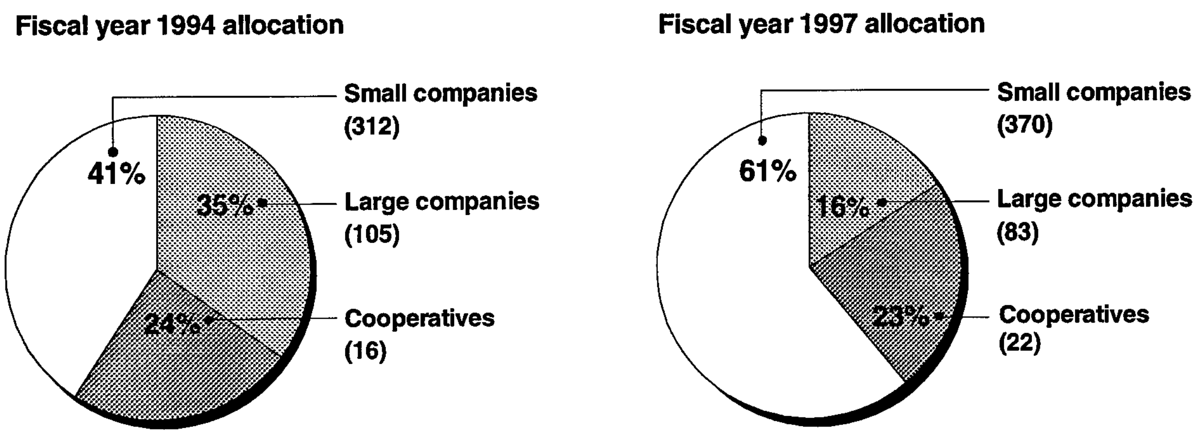
Congress enacted legislation in 1993 directing FAS to give priority to small businesses when allocating MAP funds for brand-name promotions (P.L. 103-66). FAS requires businesses that are applying for brand-name assistance to certify that they are a small-sized entity based on their own assessment using the Small Business Administration's (SBA) criteria.[10] Since fiscal year 1994, FAS has increased the number of small businesses participating in MAP's brand-name program and raised the total amount allocated to small businesses while decreasing the total amount allocated to large companies. The number of small businesses participating in the MAP brand-name program increased from 312 to 370 between fiscal years 1994 and 1997. Also, the share of MAP brand-name program funds allocated to small businesses increased from 41 percent to 61 percent, and the share allocated to large companies decreased from 35 percent to 16 percent during that period (see fig. 1). During the same period, the share allocated to cooperatives remained about the same, around 23 percent.[11]

[9]The prohibition on direct MAP assistance for brand-name promotions does not apply to cooperatives, nonprofit trade associations, and Capper-Volstead associations (P.L. 104-127, Apr. 4, 1996).

[10]The thresholds for establishing company size under SBA's criteria depend on the type of business and are based on either the maximum number of employees or annual receipts. Under 13 C.F.R. part 121, SBA established criteria to classify companies as small businesses for each industry according to their Standard Industrial Classification codes. For example, agricultural producers cannot exceed a production value of $500,000, and most types of wholesalers cannot have more than 100 employees. In calculating a firm's number of employees or annual receipts, the SBA criteria require that all affiliated companies, whether parent or subsidiary, foreign or domestic, are included.

[11]Of the 22 cooperatives that received MAP assistance in fiscal year 1997, 3 cooperatives had annual receipts or total employees that would place them within the SBA criteria for small businesses.

Figure 1: MAP Brand-name Allocations by Type of Recipient, Fiscal Years 1994 and 1997



Note: The fiscal year 1994 allocation represents expenditures amounting to $26.1 million, and the fiscal year 1997 allocation represents a budgeted amount of $29 million. The figures in parenthesis represent the total number of companies or cooperatives.

Source: USDA.

According to FAS officials, these results have been achieved by conducting presentations throughout the United States encouraging small companies to promote their products overseas. In addition, FAS has provided state regional groups with additional funds to expand their outreach activities. We estimate there were 145 first-time recipients of MAP funds for brand-name promotions in fiscal year 1997.[12] Our analysis of FAS data shows that these first-time recipients included 2 cooperatives, 125 small businesses, and 18 large companies.

[12]Our classification of a recipient as a first-time recipient is based on the fact that a recipient had not received brand-name program funds for fiscal years 1994-96. This methodology may overstate the number of first-time recipients if any had received funding in prior years; however, detailed company information is not available for earlier years to determine whether these recipients received brand-name funds before 1994.

Changes to MAP Brand-name Allocations Based on Recipient Size

Legislation enacted in 1996 prohibited FAS from providing direct assistance for brand-name promotions to companies that are not recognized as small business concerns under the Small Business Act. Nonprofit trade associations, Capper-Volstead associations,[13] and cooperatives were specifically exempted from this prohibition. As a result, FAS ended direct assistance to six large companies that had received direct assistance in fiscal year 1995. One of these large companies continued to receive MAP funds indirectly for brand-name promotions in fiscal years 1996 and 1997 by applying through two state regional groups.

While the 1996 legislation prohibits only direct assistance to large companies, FAS recently decided to prohibit large companies (excluding cooperatives and certain associations) from receiving MAP brand-name funds indirectly through the trade associations, state regional groups, and state agencies. Fiscal year 1997 was the last year that FAS allowed large companies to participate, either directly or indirectly, in the MAP brand-name program. Consequently, 83 large companies that had received MAP brand-name assistance in fiscal year 1997 were expected to be eliminated from the brand-name program in fiscal year 1998.[14] Large businesses can still take part in MAP's generic promotions. According to FAS officials, their decision to entirely eliminate large companies from the allocation of MAP funds for brand-name promotions responded to criticisms that MAP represented "corporate welfare" and recognized that small businesses need greater assistance in exporting.

Graduation Affects Brand-name Promotions, but Waivers Reduce Impact

FAS first issued regulations in fiscal year 1995 to implement the statutory direction to establish a graduation requirement for MAP participants. These regulations limited assistance to 5 years per specific branded product per single market. They were later revised to limit assistance to 5 years per company per country market. Our projection, based on FAS data, suggests that the graduation requirement could affect half of the cooperatives and about a quarter of the small businesses that used MAP funds in fiscal year 1997 to promote their brand-name products. These entities face the prospect of losing MAP assistance for approximately 40 percent of their

[13]The Capper-Volstead Act (7 U.S.C. sec. 291) authorizes persons engaged in the production of agricultural products to act together in association for the purpose of processing, preparing for market, handling, and marketing such products. The act establishes a qualified immunity for such associations from the antitrust laws. The act applies to growers and processors of fruit, dairy products, trees, and general agricultural products. Nonprofit agricultural cooperatives, as well as cooperatives having capital stock, can qualify as associations under the act.

[14]Fiscal year 1998 data was not available at the time of our review and, therefore, we could not confirm that large companies did not receive MAP assistance for brand-name promotions in fiscal year 1998.

current promotions, totaling $9.2 million in fiscal year 1999. However, FAS used its statutory authority in December 1998 and waived the graduation requirement for all cooperatives. The effect of this decision reduced the impact of the graduation requirement on program participation to $4.3 million, affecting only brand-name promotions conducted by small businesses.

Graduation Requirement Applies to All Company Products in a Single Country

To implement the graduation requirement, FAS established regulations in February 1995 limiting a company or a cooperative to 5 years of MAP assistance per "single market" per "specific brand product."[15] FAS first applied the graduation requirement to companies receiving assistance for brand-name promotions in fiscal year 1994. While FAS officials recognize that many market segments can exist within a single country (for example, a particular geographic region, target audience, or demographic group), the rule defines "single market" as a "single country" to reduce the administrative burden on both the participant and FAS as well as to eliminate the need for interpretation. Under the 1995 regulations, FAS had discretion to determine whether two or more brand-name products were substantially the same product or different products. Some participants requested that FAS use its discretion to more narrowly define the term "single product." For example, representatives from an almond producers' cooperative told us that they thought they should be able to follow a 5-year MAP promotion of their brand-name almonds in frozen yogurt in a particular country with a MAP promotion of their almonds in ice cream because they would be promoting a different type of brand-name product.

FAS revised the regulations in June 1998[16] to limit each company to no more than 5 years of MAP funding for brand-name promotions per country.[17] According to FAS officials, the new regulation simplifies program administration and allows FAS to share its resources more effectively with a wider variety of U.S. exporters and markets. After 5 years of assistance in a country, FAS officials told us, a company should have established itself in that market and be able to finance 100 percent of its market development costs. Upon graduating from these markets, companies are not excluded from the MAP program, because they can receive funds for

[15]7 C.F.R. 1485.14(d)(2), Federal Register, Vol. 60, No. 21 (Feb. 1, 1995), p. 6366.

[16]7 C.F.R. 1485.14 (d)(2), Federal Register, Vol. 63, No. 105 (June 2, 1998), p. 29940.

[17]A company is limited to a total of 5 years of MAP assistance (consecutive or nonconsecutive) for its promotions in a particular country beginning with fiscal year 1994 allocations. Fiscal year 1998 is the first year any company would graduate from a particular country market, meaning the company will have to continue its promotion without MAP assistance in fiscal year 1999.

brand-name promotions in other countries or take part in MAP's generic program. FAS officials hope that the graduation requirement might encourage companies to enter new and promising markets that have been previously ignored.

Graduation Affects Many Companies and Country Markets

Our projection of FAS data suggests that 11 of the 22 cooperatives (50 percent) and 87 of the 370 small businesses (24 percent) that received MAP funds for brand-name promotions in fiscal year 1997 could be affected by the 5-year graduation requirement in fiscal year 1999.[18] These 11 cooperatives and 87 small businesses conducted a total of 445 brand-name promotions in fiscal year 1997, of which an estimated 183 of these promotions (or 41 percent) would not qualify for MAP funding in fiscal year 1999 if there were no waivers to the graduation requirement.[19]

The graduation requirement could impact MAP brand-name promotions in some country markets more than in others (see table 1). Almost two-thirds of MAP's $29 million budget for brand-name promotions supported company and cooperative promotions in nine countries in fiscal year 1997. Our analysis estimates that 7 percent of the companies and cooperatives with brand-name promotions in Korea and Taiwan could graduate from MAP assistance in fiscal year 1999 compared to the approximately 25 percent share of companies and cooperatives that face graduation in Japan, the United Kingdom, and Canada. However, some country markets will not be as significantly affected by the graduation requirement; for example, 65 percent of the companies and cooperatives conducting MAP-assisted brand-name promotions in the People's Republic of China were using the program for the first time in that country in fiscal year 1997.

[18]Fiscal year 1998 data was not available at the time of our study, so we projected the number of companies and cooperatives expected to graduate from certain country markets in fiscal year 1998 based on their funding history for each country. In other words, if a company received 4 consecutive years of MAP funds for a certain country (fiscal years 1994-97), we assumed it will receive funds for the same country in fiscal year 1998.

[19]The graduation requirement does not apply to those companies, cooperatives, and trade associations receiving MAP funds for generic promotions, which represented 76 percent of the total MAP program budget in fiscal year 1997. Trade associations that receive MAP funds to support their generic promotions face no restrictions on the number of years they can receive assistance in a country. For example, since 1986 almost $87.2 million in MAP funds has been spent by one trade association for the generic promotion of U.S. meat in Japan, with annual MAP expenditures ranging between $3.9 million and $18.8 million (in 1997 dollars). Similarly, over $15 million in MAP funds has been spent by one trade association on the generic promotion of U.S. wine in the United Kingdom, with annual MAP expenditures ranging between $614,000 and $4.7 million (in 1997 dollars).

Table 1: Country Markets With Largest MAP Brand-name Budgets, Fiscal Year 1997

Country markets	Budget FY 1997 (in millions)	Number of companies in fiscal year 1997			Companies projected to graduate in FY 1998[b]	
			First-time recipients in country[a]			
		Total number	Number	Percent	Number	Percent
Japan	$5.0	160	74	46	36	23
United Kingdom	2.9	118	44	37	31	26
Canada	2.3	111	40	36	30	27
Hong Kong	1.9	71	36	51	14	20
Germany	1.8	123	67	54	19	15
Mexico	1.5	77	39	51	12	16
People's Republic of China	1.0	72	47	65	0	0
Taiwan	1.0	55	30	55	4	7
Republic of Korea	1.0	54	34	63	4	7

Legend:
FY=fiscal year

Note: In this table, the number of companies represents the total number of companies and cooperatives.

[a]We projected the number of companies and cooperatives that used MAP funds for brand-name promotions for the first time in fiscal year 1997 based on the observation that they had not received MAP funds for fiscal years 1994-97.

[b]We projected the number of companies and cooperatives that will have received MAP brand-name assistance for 5 years based on funding history for each country (that is, the company or cooperative received MAP assistance for fiscal years 1994-97, and we assume they will receive funds in fiscal year 1998).

Source: Our analysis of USDA data.

To study the long-term impact of the graduation requirement on MAP participation, we analyzed the top 10 cooperatives and small businesses that received MAP brand-name funds in fiscal year 1997. Our analysis estimates that 9 of the 10 recipients would graduate from at least one country market in fiscal year 1998. In addition, four recipients would face the prospect of graduating from at least half of their country markets in fiscal year 1998 (see table 2). For example, International American Supermarkets is expected to graduate in fiscal year 1998 from seven of its nine Middle Eastern markets. In addition, this company is expected to graduate from its remaining two country markets in fiscal year 2000. International American Supermarkets has received over $3.1 million (in 1997 dollars) since 1989 to promote grocery products in these markets.

Table 2: Small Businesses and Cooperatives With Largest MAP Brand-name Awards in Fiscal Year 1997 and Projected Graduations From Country Markets

				Number of country markets				
			Budget allocation	Total	Projected graduations from MAP[a]			
Company name	Type	Commodity types	FY 1997	FY 97	FY98	FY99	FY00	FY01
Sunkist Growers	Coop	Fresh citrus	$2,594,000	5	5	0	0	0
Blue Diamond	Coop	Almonds, pistachios	1,419,000	9	4	2	0	3
Welch Foods	Coop	Grape juice	740,000	6	2	3	0	1
Sunsweet	Coop	Prunes	616,000	3	3	0	0	0
IntlAmSupMkts	Small	Bakery,snacks,vegs	475,000	9	7	0	2	0
ASB Group Intl	Small	Snack food	350,000	2	1	1	0	0
Ocean Spray	Coop	Cranberries & products, fresh grapefruit	320,000	3	1	0	1	1
Herman Goelitz	Small	Confectionery	265,000	6	2	1	1	2
Org Log Cabin Homes	Small	Log cabins	250,000	1	0	0	1	0
Wente Bros	Small	Wine	250,000	9	4	2	1	2

Legend:
FY=fiscal year

Note: These top 10 recipients received 25 percent of the brand-name budget.

[a]We projected the number of countries the company is expected to graduate from based on funding history (that is, the company received MAP funds for a certain country for fiscal years 1994-97, and we assume that it will receive funds in fiscal year 1998).

Source: Our analysis of USDA data.

Waivers Reduce Impact of Graduation Requirement

The impact of the graduation requirement was reduced when FAS decided in December 1998 to waive the graduation requirement for all cooperatives. While the legislation encourages graduation, it also gives the Secretary of Agriculture authority to waive the graduation requirement and extend MAP brand-name assistance beyond 5 years for a particular company if it is determined that further assistance is necessary to meet the objectives of the program. According to FAS' Deputy Administrator for Commodity and Market Programs, FAS extended MAP assistance to all cooperatives for brand-name promotions beyond the 5 year limit for two reasons: (1) some cooperatives represent the interests of thousands of individual growers and (2) some cooperatives represent a large share of

U.S. production and could be viewed as trade associations that promote a generic product.[20]

We estimated that absent a waiver, small companies and cooperatives with promotions totaling $9.2 million would have graduated in fiscal year 1998.[21] However, the potential impact of the graduation requirement was reduced to $4.3 million when FAS waived the requirement for all cooperatives. The lower figure represents 15 percent of the $29 million MAP budget for brand-name promotions, or about 4 percent of MAP's total budget of $118.8 million in fiscal year 1997.

Of the 11 cooperatives that could have been impacted by the graduation requirement in fiscal year 1999, 4 of them have been in some country markets since the program's inception. For example, our projections indicate that Sunkist and Blue Diamond Growers would graduate from 9 of their 14 country markets in 1998 if FAS had not waived the graduation requirement. Sunkist has received a total of $70.6 million in program funds to promote fruit in five countries, and Blue Diamond has received $27.4 million to promote almonds in four countries between 1986 and 1997 (in 1997 dollars).[22]

Difficult to Verify That MAP Funds Supplement Recipient Expenditures

Beginning with the fiscal year 1994 budget allocations, participants that receive MAP funds directly from FAS must certify that the assistance supplements, not supplants, their own funding for foreign market development (the concept of "additionality"). Furthermore, trade associations, state regional groups, and state agencies must assure that applications for indirect MAP assistance include completed and accurate certification statements. The certification requirement is meant to ensure

[20]Among cooperatives participating in MAP, the number of producers in a cooperative and its market share vary greatly. For example, Sunkist has total sales over $1 billion in 1997, represents nearly 60 percent of the domestic market for navel oranges, and is owned by 6,500 citrus farmers in California and Arizona. Land O'Lakes Food Ingredients with sales at $3 billion represents over 300,000 producers in 30 states organized in local cooperatives. However, other cooperatives represent a smaller number of growers. For example, Bard Valley Medjool Date Growers Association with sales of $13 million has 9 growers, and Naturipe Berry Growers has 50 grower associates and sale revenues of $72 million.

[21]Fiscal year 1998 data was not available at the time of our study, so we projected the amount of funds that could potentially be released as a result of the graduation requirement by (1) estimating the number of companies expected to graduate from certain countries in fiscal year 1998 (see fn. 18) and (2) assuming that the amount of MAP funds they would have received in fiscal year 1998 would be the same as the amount the company received for the country promotion in fiscal year 1997.

[22]Since 1986, Sunkist has received the following amounts of MAP funds (1997 dollars) for these country markets: Canada, $7 million; Hong Kong, $11.8 million; Japan, $42.1 million; Malaysia, $4.8 million; and Singapore, $4.9 million. Blue Diamond Growers received the following amounts of MAP funds for these country markets (1997 dollars): India, $437,000; Japan, $19.8 million; Korea, $6.3 million; and Thailand, $838,000.

that MAP funds do not substitute for promotional expenditures recipients would have otherwise undertaken with their own funds. According to FAS officials, no recipients have been disqualified from the program because they failed to meet the certification requirement.

FAS' Compliance Review Staff (CRS) regularly audits the participants that receive direct MAP funding and verifies that these participants and the recipients they fund have completed their certification statements. To determine whether MAP assistance (generic or brand-name) has not supplanted a participant's foreign market development expenditures, the Director of CRS told us that they review the participant's foreign market development budget and verify that it is spending at least as much as it spent the previous year. CRS also considers variations in a recipient's promotional strategies within a country and in new markets. According to the Director, CRS reviews supporting documentation each year for about 5 percent of all indirect recipients (15-20 companies and cooperatives). The Director reported that it is difficult to verify whether MAP funds supplement a participant's own funds for foreign market development activities because it is hard to determine what a participant would have spent in the absence of MAP funds.

According to FAS officials, they have no evidence based on the CRS audits that any participant has falsely certified regarding additionality. Nonetheless, a private consulting firm has been hired to review the effectiveness of MAP, and one component of the work plan includes a section that addresses the issue of whether MAP funds supplement or supplant the funds of MAP participants. FAS officials expect this project to provide the best analysis to date on the topic of additionality.

Economic Benefits of MAP Unclear

FAS officials continue to attribute substantial macroeconomic and market-level benefits, including increased income and employment, to MAP. Specifically, FAS estimates that the cumulative effect of MAP expenditures since 1986 is $5 billion of additional agricultural exports in 1997 which, in turn, FAS says generate 86,500 jobs and $12 billion in additional economic activity.[23] This estimate is based on the projected impact of $1.25 billion (1997 dollars) of spending between 1986 and 1997 on consumer food

[23]Foreign Agricultural Service Strategic Plan: 1997-2002 (Washington, D.C.: USDA/FAS, 1997), p. 7. The Foreign Market Development Program, also known as the Cooperator Program, provides funds to nonprofit associations to help develop export markets and promote U.S. agricultural commodities—typically bulk (wheat, corn, soybeans) or generic products. Historically, USDA's contribution to this program has averaged approximately $30 million a year.

export promotion through MAP (including an estimated $5 million per year in Foreign Market Development Program expenditures).

Our review of the recent estimates of MAP's impact on the macroeconomy and the methodology used to derive them suggests that the benefits attributed to MAP by FAS are overstated. The model FAS used to generate these estimates assumes that all of the resources (land, labor, and other inputs) associated with additional agricultural exports would be unemployed in the absence of government market promotion efforts.[24] As we previously reported, this approach is inconsistent with OMB cost-benefit guidelines, which instruct agencies to assume that resources would be fully employed, and leads to an overstatement of benefits of the program.[25]

In addition, FAS continues to assume that all of the market development efforts subsidized through MAP funding are in addition to what the private sector would do in the absence of the government program efforts. This position differs from the view of the Trade Promotion Coordinating Committee (TPCC).[26] In its 1998 annual report, the TPCC concluded that government agencies currently do not have the means to measure whether exports would have taken place without government intervention and that the results of studies of net economic effects of export promotion are speculative.

[24]The methodology used by FAS is developed in Evaluating the Effectiveness of the Market Promotion Program on U.S. High-Value Agricultural Exports, FAS Staff Paper 1-95 (Washington, D.C.: Feb. 1995).

[25]For another discussion of the assumptions in the FAS model, see U.S. Agricultural Exports: Strong Growth Likely, But U.S. Export Assistance Programs' Contribution Uncertain (GAO/NSIAD-97-260, Sept. 30, 1997). See also OMB Circular No. A-94. The circular states: "Generally, analyses should treat resources as if they were likely to be fully employed." When the economy is near or at full employment, government promotion activities largely reallocate production, employment, and income between sectors and are therefore less likely to generate additional economic activity.

[26]The National Export Strategy: Staying the Course, Trade Promotion Coordinating Committee, Sixth Annual Report to the U.S. Congress (Washington, D.C.: TPCC, Oct. 1998). The TPCC was established by the President under authority of the Export Enhancement Act of 1992 (P.L. 102-429). Members of the TPCC include representatives from government Departments and agencies such as the Departments of Agriculture, Commerce, and State; the Small Business Administration; the Overseas Private Investment Corporation; and the U.S. Trade Representative. The TPCC is responsible for coordinating the development of the trade promotion polices and programs of the U.S. government and establishing a set of priorities for federal activities in support of U.S. exports.

FAS officials directed us to academic studies that they identified as demonstrating the positive effect of MAP on agricultural exports.[27] We examined the relevant studies of MAP's impact in specific markets and found that they reveal mixed results. Of the studies that estimate MAP's impact on agricultural exports in specific foreign markets, all report positive benefits in one or more of the targeted markets, but most of these studies also report that MAP funding failed to influence exports in other targeted markets. Moreover, caution should be used in interpreting the benefits ascribed to MAP in these studies, since the studies that report positive effects from MAP funding employ a methodology that results in an upward bias on the estimated benefits (see app. II for a more detailed review of these studies). Thus, it is difficult to generalize about the impact of MAP based on the results of these market-level studies.

FAS officials responsible for developing agency strategic and performance plans in accordance with Results Act requirements are undertaking steps to redesign performance measures as a basis for developing market-level strategies. FAS recently requested the National Association of State Departments of Agriculture to develop performance measures in order to improve the system for evaluating MAP's effectiveness in selected markets and for assessing the overall impact of the program. The goal of this initiative is to develop a more effective mechanism for allocating MAP program resources through new market-level studies. This initiative provides an opportunity for FAS to overcome the limitations of existing studies by carrying out a more rigorous analysis of the impact of the program. This new approach is reinforced by a direction in a recent Appropriations Committee conference report that the Secretary of Agriculture produce a comprehensive analysis of the economic impact of MAP.[28]

[27]Specifically, FAS officials directed us to studies carried out by the Research Committee on Commodity Promotion (NEC-63) and the National Institute for Commodity Promotion Research and Evaluation (NICPRE), which are both university-affiliated organizations that carry out research in agriculture and related fields. The majority of studies of MAP-funded promotions in specific markets have been carried out under the auspices of these organizations.

[28]See the Conference Report on the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, Oct. 21, 1998). The report directs the Secretary of Agriculture to "produce a report on the MAP which should include an analysis of the costs and benefits of the program for compliance with OMB Circular A-94; estimate the impact of MAP on the agricultural sector, on consumers, and other sectors of the economy in the United States; assess the relation between the priorities and spending levels of programs carried out under MAP and the privately funded market promotion activities undertaken by participants in the programs; and evaluate the additional spending of participants and the amount of export additionality resulting from the MAP." H. Conf. Rept. No. 105-825, 105th Cong., 2d Sess. (1998), p. 989-90.

Agency Comments and Our Evaluation

We obtained oral comments from FAS on a draft of this report. FAS said that it agreed with the report's presentation of the operational changes to MAP that FAS has implemented in response to legislative direction.

However, FAS officials disagreed with the report's conclusion that their economic analyses tended to overstate MAP's macroeconomic benefits. They said that FAS uses a standard USDA methodology to convert MAP's estimated export impacts to "supported employment" effects. These multipliers are taken from the input-output model of the U.S. economy developed and updated each year by USDA's Economic Research Service. They also said that they recognize that their methodology is not consistent with OMB Circular A-94 guidance that "generally, analyses should treat resources as if they were likely to be fully employed." FAS officials said they believe that OMB's guidance is unrealistic and unduly restrictive. FAS analysis assumes slack (less than fully employed) resources, especially labor. FAS officials cite evidence of labor unemployment as proof of slack resources in the U.S. economy. FAS officials state that their estimate of the number of jobs supported by MAP is small compared to the total number of new jobs created each month in the U.S. economy and this reinforces their belief that OMB's full employment assumption is unrealistic for a small program like MAP. Furthermore, FAS officials note that USDA is not the only government agency that uses employment multipliers to estimate the macroeconomic benefits of exports.

We note that the guidelines in OMB Circular A-94 apply to all agencies of the executive branch and for any analysis used to support government decisions to renew programs such as MAP.[29] We believe that the guidelines provide a sound basis on which to evaluate programs such as the MAP and their contributions to the national economy.

FAS also provided some technical comments and, where appropriate, they have been incorporated.

Scope and Methodology

To report on actions FAS took to implement legislative reforms enacted by Congress in the mid-1990s, we reviewed MAP legislation and regulations. We also interviewed and collected documents from FAS officials from the Commodity and Marketing Programs Division who are responsible for the

[29]The OMB Circular A-94 guidelines "apply to any analysis used to support Government decisions to initiate, renew, or expand programs or projects which would result in a series of measurable benefits or costs extending for three or more years into the future." Some decisions are exempted from the scope of the circular concerning: water resource projects, the acquisition of commercial-type services by government or contractor operation, and federal energy management programs.

management and oversight of MAP, as well as officials from FAS' Compliance Review Staff and USDA's Office of Inspector General. In addition, we interviewed and gathered documents from five MAP participants to understand how different types of program participants (that is, trade associations, state regional groups, and cooperatives) participated in the program. Our review of the program relied on data from fiscal years 1986 to 1997. At the time of our review, fiscal year 1998 data on company participation in the MAP brand-name program was not available. A fiscal year represents the year for which the MAP funds were authorized and allocated; however, these funds may have been expended the following fiscal year depending on the recipient's marketing year. For the years of available data, we analyzed actual expenditure data, with the exception of fiscal year 1997, because only budget data was available at the time of our review.[30] We did not verify the accuracy or completeness of the electronic data.

To determine the impact of FAS' implementation of legislative reforms to give priority to small-sized businesses when funding the MAP brand-name program in fiscal years 1994 and 1997, we analyzed changes in the number and shares of small businesses participating in MAP's brand-name program. We also examined the size of the 22 cooperatives participating in the brand-name program for fiscal year 1997 by comparing the SBA criteria—the same criteria used by companies to qualify themselves as small-sized businesses for MAP brand-name funds—to data obtained from business references and other sources on the total number of employees and annual sales for each cooperative.[31]

To determine the impact of the graduation requirement on MAP participation, we projected the number of companies and their promotions that might be affected. Fiscal year 1998 data was not available at the time of our review, so we estimated the number of companies and cooperatives expected to graduate from certain country markets in fiscal year 1998 based on their funding history for each country. To estimate the amount of funds expected to be released due to the graduation requirement, we assumed the amount of MAP funds these graduating companies and cooperatives would have received in fiscal year 1998 would be the same as the amount they received for the country promotion in fiscal year 1997. Our review of graduation did not include any consideration of the number

[30]Program data included statistics on the allocation of MAP funds by participant, company, country, and type of MAP promotions, that is, generic or brand-name.

[31]Whenever possible, we used data from Dunn and Bradstreet (Bethlehem, PA: 1998); otherwise, we used data from Standard & Poor's (New York, NY: 1998) and the Standard Directory of Advertisers (New Providence, NJ: 1998).

of years that trade associations, cooperatives, and companies had received MAP funds to support their country-specific generic promotions; this was outside the scope of our review.

To determine the impact of the legislative requirement that MAP participants certify that MAP funds supplement, not supplant, their expenditures for promotions in foreign markets on MAP participation, we interviewed FAS officials responsible for the management and oversight of MAP, including representatives from FAS' Commodity and Marketing Programs Division and Compliance Review Staff. We also reviewed compliance reports and other documents provided by the Compliance Review Staff.[32]

In order to provide a review of the economic impact of MAP, we focused our analysis on those studies that estimated or analyzed the economic impact of MAP and its predecessors (the Market Promotion Program and the Targeted Export Assistance program). We revisited some of the studies that were analyzed in a prior review of all FAS export promotion programs as well as more recent estimates by FAS of the program's economic impact.

In our review of studies of MAP's impact on U.S. agricultural exports and related effects on employment and gross national product, we performed two tasks. First, we relied on our previous analysis of FAS' methodology for estimating effects from MAP funding on agricultural exports, employment generation, and income effects and compared this methodology with OMB guidelines for cost-benefit analysis. We spoke with FAS officials charged with the development and implementation of the 1993 Government Performance and Results Act-mandated strategic and annual performance plans to gather their opinion of the applicability and reliability of FAS estimates and methodology. Also, we considered the methodology FAS used to derive its macroeconomic estimates from the perspective of standard economic analysis of the effects of subsidies on the target sector and related sectors. In addition, we also reviewed how the TPCC reported benefits of MAP and other export promotional spending in its annual National Export Strategy.

Second, to obtain evidence on the impact of MAP on sectoral exports, we reviewed analyses provided to us by FAS as well as other applicable research analyses from academic publications of the impact of the

[32]This review of documentation included compliance reports for 10 MAP participants, audit schedules for fiscal years 1993-97, and accomplishment reports for fiscal years 1994-96.

program on particular markets. When reviewing these studies for the current analysis, we focused on both the findings of economic impact and the methodology used to derive results. The available studies focused on MAP-funded generic promotions. We synthesized this information to present an overview of the impact of MAP funding on exports and the U.S. economy. We spoke to officials at FAS and the National Association of State Departments of Agriculture, which is collaborating with FAS in developing performance indicators for the MAP program, and we reviewed the National Association of State Departments of Agriculture's Request for Proposal for an evaluation project for MAP.

We conducted our work at FAS in Washington, D.C., and completed telephone interviews with representatives from three trade associations, one cooperative, and one state regional group located throughout the United States.

We performed our review from January 1998 to December 1998 in accordance with generally accepted government auditing standards.

As agreed with your offices, we will send copies of this report to Senator Richard G. Lugar, Chairman, and Senator Tom Harken, Ranking Minority Member, Senate Committee on Agriculture, Nutrition, and Forestry; Representative Larry Combest, Chairman, and Representative Charles W. Stenholm, Ranking Minority Member, House Committee on Agriculture. We are also sending copies of this report to the Honorable Daniel Glickman, Secretary of Agriculture. We will also make copies available to others on request.

This review was done under the direction of JayEtta Z. Hecker, Associate Director. If you or your staff have any questions concerning this report, please contact Phillip Thomas, Assistant Director, at (202) 512-9892. Major contributors to this report are listed in appendix III.

Benjamin F. Nelson

Benjamin F. Nelson, Director
International Relations and Trade Issues

Contents

Abbreviations

CRS	Compliance Review Staff
FAS	Foreign Agricultural Service
MAP	Market Access Program
MPP	Market Promotion Program
NEC-63	Research Committee on Commodity Promotion
NICPRE	National Institute for Commodity Promotion Research and Evaluation
OMB	Office of Management and Budget
SBA	Small Business Administration
TEA	Targeted Export Assistance
TPCC	Trade Promotion Coordinating Committee
USDA	U.S. Department of Agriculture

Statistics on Participation in the Market Access Program

Since its inception in 1986, the Market Access Program (MAP) and its predecessors, the Targeted Export Assistance program (TEA) and the Market Promotion Program (MPP), have provided funds to commercial firms and nonprofit organizations to support the promotion of U.S. agricultural goods in foreign markets. TEA was first authorized in 1985 to reverse a decline in U.S. agricultural exports and to counter the unfair trade practices of foreign competitors.[1] Only those commodities adversely affected by unfair foreign competitor practices were eligible for assistance. When Congress reauthorized the program in 1990, it was renamed the Market Promotion Program, and assistance was no longer restricted to commodities adversely affected by unfair competitor practices.[2]

In 1993 Congress initiated three major program changes. The first directed that the Foreign Agricultural Service (FAS) give small businesses priority in the allocation of MAP funds for brand-name promotions. The second change established a graduation requirement with a 5-year limit on the use of MAP funds to promote a "specific branded product" in a "single market" unless FAS determines that further assistance is deemed necessary to meet program objectives. The third change was a requirement that each participant certify that MAP funds supplement its foreign market development expenditures.[3]

With the Market Promotion Program's 1996 reauthorization, Congress changed the program name to MAP, and, among other things, prohibited direct assistance to companies that are not recognized as small business concerns under the Small Business Act, except for cooperatives and certain associations.[4] The 1996 reauthorizing legislation also capped annual funding for MAP at $90 million for fiscal years 1996-2002 (see fig. I.1 for annual MAP appropriations, fiscal years 1986-97).

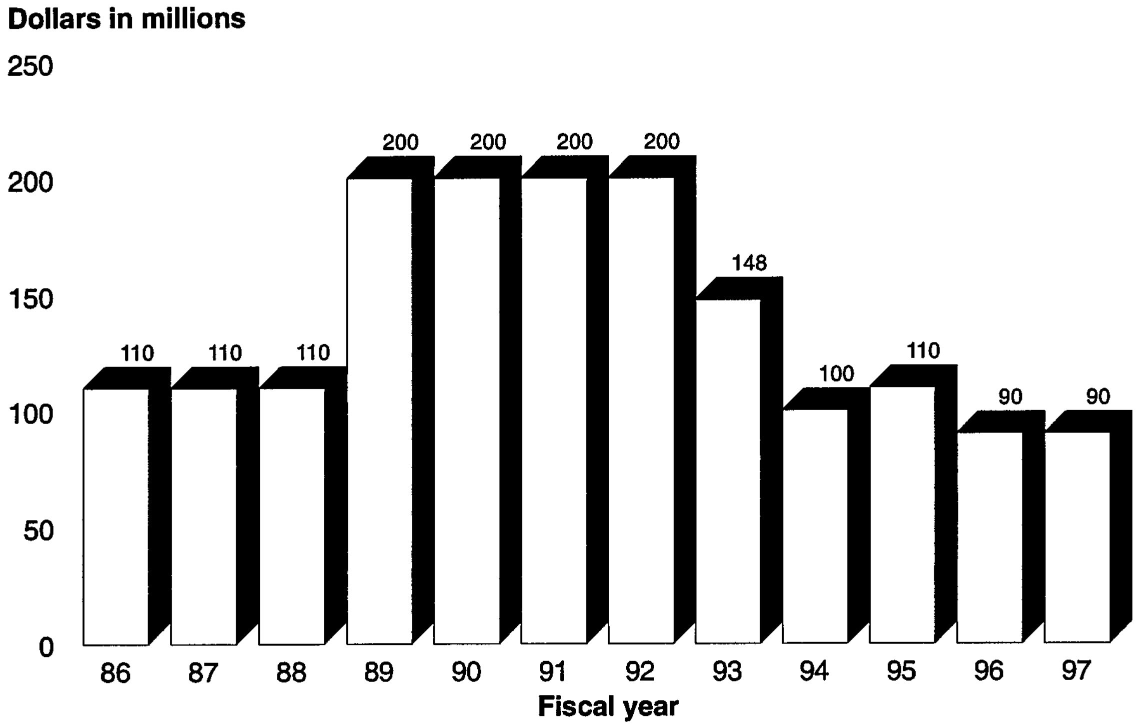
[1]The Food Security Act of 1985 (P.L. 99-198, sec. 1124, Dec. 23, 1985).

[2]The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624, sec. 1531, Nov. 28, 1990).

[3]The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, sec. 1302, Aug. 10, 1993).

[4]The Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, sec. 244, Apr. 4, 1996).

Figure I.1: Annual MAP Appropriations, Fiscal Years 1986-97



Note: The budget for MAP in fiscal year 1997 was $118.8 million (this figure includes the 1997 annual appropriations plus carryover from the prior year).

Source: U.S. Department of Agriculture (USDA).

Table I.1 presents a list of all participants who received MAP funds directly during fiscal year 1997 along with the amount of MAP funding they were allocated and the percent they spent on generic and brand-name promotions.

Table I.1: MAP Participants and Budgets—Generic and Brand-name—Fiscal Year 1997

Participant	1997 MAP budget	Percent generic	Percent brand-name
Trade Associations			
Almond Board of California	$504,043	100	0
American Brandy Association	230,000	66	34
American Forest & Paper Association	7,568,704	100	0
American Jojoba Association	200,000	100	0
American Indian Trade and Development Council	75,318	100	0
American Seafood Institute/Rhode Island Seafood Council	637,249	58	42
American Sheep Industry Association	170,000	100	0
American Soybean Association	2,373,422	100	0
Asparagus USA	258,103	100	0
California Agricultural Export Council	611,787	100	0
California Cling Peach Growers Advisory Board	798,931	100	0
California Kiwifruit Commission	158,000	100	0
California Pistachio Commission	979,103	91	9
California Prune Board	2,563,500	76	24
California Strawberry Commission	508,567	100	0
California Table Grape Commission	2,348,272	100	0
California Tree Fruit Agreement	774,664	100	0
California Walnut Commission	2,593,772	100	0
Cherry Marketing Institute	165,292	100	0
Chocolate Manufacturers Association	1,695,376	12	88
Cotton Council International	9,753,438	100	0
Hop Growers of America	125,000	100	0
Kentucky Distillers Association	847,952	60	40
Mohair Council of America	75,000	100	0
National Dry Bean Council	728,469	100	0
National Honey Board	144,382	67	33
National Peanut Council	1,155,000	100	0
National Potato Research & Promotion Board	1,674,984	100	0
National Renderers Association	286,967	100	0

(continued)

Participant	1997 MAP budget	Percent generic	Percent brand-name
National Sunflower Association	999,958	100	0
New York Wine and Grape Foundation	152,814	79	21
North American Blueberry Council	92,000	100	0
North American Export Grain Association	194,950	100	0
Northwest Wine Promotion Coalition	280,664	100	0
Oregon Seed Council	197,858	100	0
Oregon-Washington-California Pear Bureau	1,065,813	100	0
Pet Food Institute	991,030	100	0
Raisin Administrative Committee	2,444,619	91	9
Texas Produce Export Association	123,930	100	0
The Catfish Institute	309,905	100	0
The Popcorn Institute	502,077	100	0
USA Dry Pea & Lentil Council	577,918	100	0
USA Fresh Sweet Cherry Promotion	858,020	100	0
USA Poultry and Egg Export Council	3,952,570	78	22
USA Rice Federation	3,497,075	100	0
USA Tomato (CA FL tomatoes)	653,396	100	0
US Apple Association	505,548	100	0
US Dairy Export Council	1,934,781	100	0
US Feed Grains Council	3,945,878	100	0
US Livestock Genetics Export, Inc.	1,077,468	75	25
US Meat Export Federation	9,875,166	98	2
US Wheat Associates	2,278,750	100	0
Washington Apple Commission	3,198,266	100	0
Wine Institute	4,454,000	59	41
State regional groups			
Eastern US Agricultural & Food Export Council (USEAFEC)	4,287,219	25	75
Mid-America International Agri-Trade Council (MIATCO)	6,378,167	16	84
National Association of State Departments of Agriculture (NASDA)	600,000	100	0
Southern United States Trade Association (SUSTA)	4,336,616	23	77
Western US Agricultural Trade Association (WUSATA)	6,989,000	19	81
State agencies			
Alaska Seafood Marketing Institute	2,569,203	100	0

(continued)

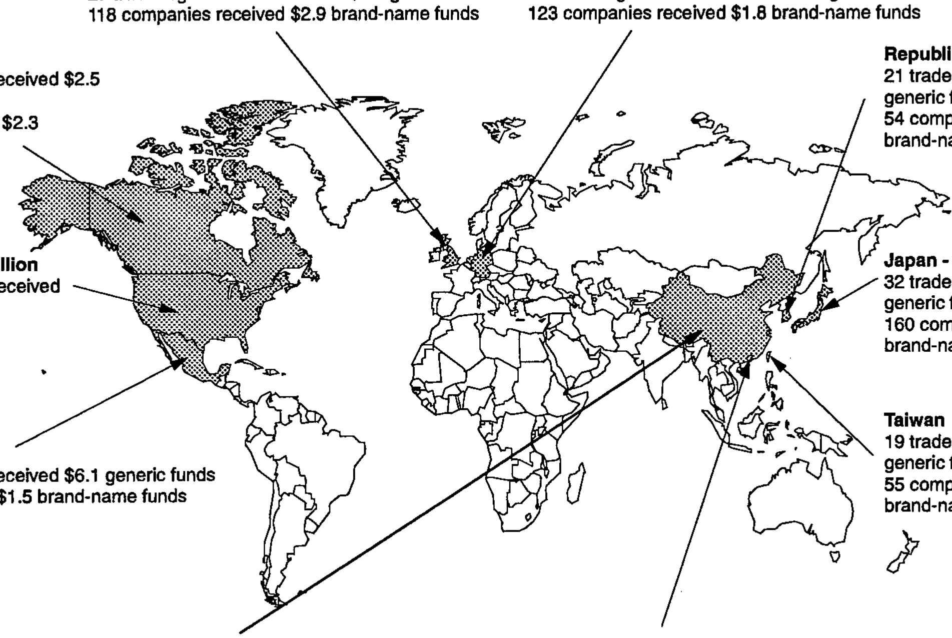
Participant	1997 MAP budget	Percent generic	Percent brand-name
Florida Department of Citrus	4,498,525	100	0
Cooperatives			
Blue Diamond Growers	1,375,000	0	100
Ocean Spray International, Inc.	319,848	0	100
Sunkist Growers, Inc.	2,593,546	0	100
Welch Foods Inc. (National Grape Cooperative)	664,261	0	100
Total	**$118,781,134**	**76**	**24**

Source: USDA.

The 10 country markets with the largest MAP budgets in fiscal year 1997 represent all countries that had MAP generic and brand-name promotions totaling $2 million or more (see fig. I.2). Approximately 65 percent (or $77 million) of the total $118.8 million in MAP funds was budgeted for promotions in these markets in fiscal year 1997. The remaining 35 percent of the MAP funds was budgeted for generic and brand-name promotions in 90 other country markets.

Approximately $2.2 million of the MAP budget in fiscal year 1997 supported efforts conducted in the United States that underpinned foreign market development activities. About 32 percent of the budget covered administrative costs expected to be incurred by four state regional groups for such items as rent, salaries, and supplies. Approximately 17 percent of the funds were budgeted for anticipated travel expenses by staff from seven trade associations and three state regional groups. Another 28 percent supported activities such as demonstrations, media, public relations, promotions, and trade shows. The majority of these funds supported preparations at the largest food export trade show in the United States.

Figure I.2: Country Markets With Largest MAP Budgets, Fiscal Year 1997



[a]Due to rounding, this amount does not reflect the $8,000 of MAP funds supporting one brand-name promotion in the United States.

Source: Our map based on USDA data.

A total of 475 recipients participated in the MAP brand-name program in fiscal year 1997. Four cooperatives (Sunkist, Welch Foods Inc., Ocean Spray, and Blue Diamond) received MAP funds for brand-name promotions directly from FAS.[5] All other companies and cooperatives applied indirectly to FAS for MAP funds for brand-name promotions through trade associations, state regional groups, and state agencies. The amount of brand-name assistance awarded to each recipient ranged from $1,500 to $2.6 million; however, almost half of the awards were in amounts less than $25,000 (see table I.2).

Table I.2: Size of MAP Brand-name Awards by Type of Recipient, Fiscal Year 1997

	Large companies		Small companies		Cooperatives	
Size of award	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Below $25,000	37	45	187	51 6	2	7
$25,000-$99,999	35	42	126	34	8	36
$100,000-$299,999	9	11	55	15	3	14
$300,000 and over	2[a]	2	2[b]	1	5[c]	23
Total	**83**	**100**	**370**	**101[d]**	**22**	**100**

[a]Large company awards amounted to $440,000 and $597,874.

[b]Small company awards amounted to $350,000 and $475,000.

[c]Cooperative awards amounted to $319,848, $616,000, $740,261, $1.4 million, and $2.6 million.

[d]Greater than 100 percent due to rounding.

Source: Our analysis of USDA data.

[5]Two of these cooperatives, Welch Foods Inc. and Blue Diamond, also received MAP funds for brand-name promotions indirectly through state regional groups.

Review of Market-Level Studies of MAP

The studies that analyzed the effect of MAP and its predecessor programs were for the most part carried out under the auspices of university-affiliated institutes and organizations. Nine universities are affiliated with the National Institute for Commodity Promotion Research and Evaluation (NICPRE). NICPRE is an offshoot of the Research Committee on Commodity Promotion (NEC-63), which is a component of the land grant committee structure to coordinate research in agriculture and related fields.

FAS officials identified a number of market-level studies published by NICPRE and NEC-63 that they said showed MAP's economic benefits to agriculture through increased exports and market shares for specific commodities. Our review found that the studies provide mixed evidence of a positive impact of MAP-funded promotions at the market-level unit of analysis. The studies also vary in terms of their functional forms, assumptions, and independent variables. Some models are more completely specified in that they include variables measuring income, the prices of substitute and complementary goods, exchange rates, and long-term trends. However, others lack one or more of these important variables, raising the possibility of biased estimators due to model misspecification.[1] The presentation of the econometric estimation of the models also varies. Some studies are rigorous, while others fail to present complete diagnostics of the model performance.

Few studies show an unambiguously positive effect of government promotional activities on exports. For example, a study of the effects of FAS-funded promotions for U.S. red meat (pork, veal, and beef) in the Pacific Rim countries showed a positive result in the case of South Korea and insignificant results for the other three countries included in the analysis.[2] Also, an analysis of the effects of government-funded promotions of meat in Japan showed a positive influence on the demand for U.S. beef but found no evidence that advertising and promotion

[1]See the discussion by Karen Z. Ackerman and Shida Rastegari Henneberry in "Economic Impacts of Export Market Promotion," Commodity Promotion Policy in a Global Economy, Proceedings of a Symposium (Arlington, VA: Oct. 22-3, 1992).

[2]See Cong Tru Le, Harry M. Kaiser, and William G. Tomek, "Export Promotion and Import Demand for U.S. Red Meat in Selected Pacific Rim Countries," NICPRE 97-04 (Ithaca, NY: Cornell University, Sept. 1997).

expenditures had an expansionary effect on the demand for U.S. pork and poultry products.[3]

Additionally, a number of the market-level studies that find positive effects associated with government-subsidized programs are incomplete in their analysis and result in an upward bias on the estimated effects of MAP-funded promotions. They exclude factors that could permit program administrators to assure that the impact is positive even after accounting for increased costs. Most studies only calculate the expansion of exports associated with a dollar input of MAP advertising. For example, one study finds that "$1,000 spent in Japan yields an increased revenue of approximately $5,850" (the cumulative effect after 40 years) for U.S. walnut producers.[4] This and similar types of estimates that report "gross returns" do not consider the production and transportation costs of these additional exports and thus fail to determine whether the promotion has positive net economic returns.[5] Also, as one study notes, it is not always possible to take into account the potentially large advertising and promotion expenditures made by private firms, which would reduce the computed increase in exports attributed to Market Access Program efforts.[6]

It should be added that only a few of these studies take into account the effects of promotional activities on other agricultural exports or on market shares of competitor countries. Advertising and promotion of U.S. brand-name and generic products can have considerable spinoff effects (sometimes called "halo effects"), both positive and negative, for related products and competitor firms and/or countries. A study of U.S. apple exports to Singapore and the United Kingdom found that while U.S.

[3]See Allison Comeau, Ron C. Mittelhammer, and Thomas I. Wahl, "Assessing the Effectiveness of MPP Meat Advertising and Promotion in the Japanese Market," NICPRE 96-10, R.B. 96-20 (Ithaca, NY: Cornell University, Dec. 1996). In contrast, Shida Rastegari Henneberry and Marco De Brito, "An Analysis of the Effectiveness of U.S. Non-Price Promotion Programs: The Case of Red Meats in Japan," in Promotion in the Marketing Mix: What Works, Where and Why, Proceedings from the NEC-63 Conference, Toronto, Canada (Apr. 28-29, 1994) found evidence that the Market Promotion Program expenditures increased exports of beef offal to Japan, but there was no evidence of its supporting increased exports of pork or of other cuts of beef.

[4]See Kenneth R. Weiss, Richard D. Green, and Arthur M. Havenner, "Walnuts in Japan: A Case Study of Generic Promotion under the USDA's Market Promotion Program," in Agricultural Commodity Promotion Policies and Programs in the Global Agri-Food System, Proceedings from the NEC-63 Conference, Cancun, Mexico (May 26-27, 1996).

[5]See also "An Analysis of the Effectiveness of U.S. Non-Price Promotion Programs: The Case of Red Meats in Japan," and Karen Halliburton and Shida Rastegari Henneberry, "The Effectiveness of U.S. Nonprice Promotion of Almonds in the Pacific Rim," Journal of Agricultural and Resource Economics, Vol. 20, No. 1 (July 1995).

[6]"Assessing the Effectiveness of MPP Meat Advertising and Promotion in the Japanese Market."

government-subsidized marketing and advertising had a positive impact on the U.S. market share and value of exports to the United Kingdom, U.S.-funded promotions in Singapore mainly benefited the foreign competitors in the market. According to that study, which FAS officials cite as evidence of successful MAP funding, Chilean and French apple producers would be the main beneficiaries of the MAP promotions in Singapore, experiencing increases in export shares 3 to 10 times greater than the U.S. producers.[7] This result shows the importance of taking into account both direct and indirect effects and concomitant advertising by other U.S. firms and sectors and by major competitors.[8]

In summary, the market-level studies that we reviewed revealed mixed results and do not allow generalization about MAP's impact on agricultural exports. Estimations revealed both positive and insignificant effects associated with MAP promotional spending. In some cases, the methodology employed results in an upward bias on the estimated effect of MAP. Also, the effects on other U.S. agricultural markets or on the agricultural exports of competitor nations are unclear.

[7]Timothy Richards, et al., "A Two-Stage Analysis of the Effectiveness of Promotion Programs for U.S. Apples," in Agricultural Commodity Promotion Policies and Programs in the Global Agri-Food System, Proceedings from the NEC-63 Conference, Cancun, Mexico (May 26-27, 1996).

[8]The importance of this effect is demonstrated in a study that analyzed the effects of U.S. and Canadian expenditures in research and advertising and found that the "results suggest that Canadian producers would be better off giving C$100,000 to the U.S. generic advertising campaign" due to spinoff effects of U.S. advertising on the demand for Canadian beef in the United States. See Daniel Sellen, Ellen Goddard, and Stephen Duff, "Returns from Research and Advertising in the North American Hog and Pork Industry," in Economic Analysis of Research and Promotion, Proceedings from the symposium sponsored by Agricultural Research and Development and NEC-63, New Orleans, LA (Mar. 21-22, 1997).

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